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Challenging the "Free Trade" Gospel

A Book Review by John Swartout

THE MYTH OF FREE TRADE: A PLAN FOR AMERICA'S ECONOMIC SURVIVAL
By Dr. Ravi Batra
New York: Charles Scribner's Sons, 1993
247 pp., $23.00

"The air," begins a recent editorial in *The Wall Street Journal*, "is thick with hyperbole, invented statistics and insults to the other guy's mother. Congress must be gearing up to debate NAFTA [The North American Free Trade Agreement}. Perhaps, before we get in too deep, it would be helpful to tune out the demogagoguery and listen to what leveler heads say on the central issue here: free trade." And while its conclusion differs diametrically, Dr. Ravi Batra's new book *The Myth of Free Trade* is worthy of the same introduction.

As the emerging controversy over NAFTA focuses the public eye on U.S. trade policy for the first time in recent memory, the free trade doctrine which has guided it since World War II seems targeted for unprecedented scrutiny. Thus Dr. Batra, professor of international economics at Southern Methodist University, offers a timely challenge to what he calls the "economic theology" of free trade — an apt metaphor, since his analysis of how twenty years of laissez faire American trade practices "have wrecked U.S. industry and shattered the American dream" leaves little but blind faith to uphold the gospel of free trade.

With *The Myth of Free Trade*, Batra joins a growing minority of free-thinking economists who have studied history, observed empirical evidence, and ditched the dogma of their mentors to embark on a new economic paradigm. His work is inspired chiefly by the unprecedented reversal in the fortunes of America's middle class since 1973, the year the U.S. opened her markets wide to the world. Yet he also addresses the energy intensity of international trade, citing the adverse impact, both environmental and economic, of *transporting* an ever larger share of the world's production across the globe. And finally, he proposes a novel solution to the economic ills of the nation and its workers: protectionism. Not ordinary protectionism — the kind of selective coddling of powerful monopolies which have the deserved reputation of cultivating shabby quality and high prices — but *competitive protectionism.* A return to high tariffs across the board, a renaissance of trust-busting, and an emphasis on federally-assisted private research and development.

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Batra presents and analyzes abundant statistics to back up all his assertions. But statistics are nothing without interpretation, and here is where the myth-busting begins. The so-called prosperity of the 1980s, says the author, was "a mirage, a facade, and a big lie." The decade just ended was a continuation of the one before it, a period of rising GDP, rising productivity, rising imports and exports, rising per capita income, *and falling real wages for more than three-quarters of working Americans.* For the first time in the nation's history, wages and productivity have diverged since 1973, dramatically altering the distribution of income in favor of the rich. In fact, almost four-fifths of American wage earners have experienced a 19 percent decline in real wages since 1973. And this is before taxes. After taxes, many workers in the retail trades (16 percent of the work force) are taking home less money than their counterparts in the Great Depression.

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standard of most Americans — the deepest and most prolonged in the nation's history — to a structural change in the economy induced by the deep tariff cuts of the Kennedy Round of world trade talks, which took effect in 1973. Until 1970, the United States had enjoyed a practically closed economy for most of its history, with trade accounting for under 14 percent of gross national product. But the drop in the average import tariff to 7 percent in 1973 turned the U.S. into a free trade country and allowed a tidal wave of manufactured goods to pour in from low-wage competitors abroad. Prices for manufactured goods fell relative to prices in the service sector, squeezing margins in manufacturing and causing U.S. corporations to relocate their factories abroad. This process eliminated as many as 38 million high-paying jobs and flooded the low-paying service sector with an oversupply of labor, depressing service wages even further. This macroeconomic shift from an industrial economy to a service economy has also caused overall productivity growth in the U.S. to suffer, because productivity gains in services are consistently less than those in manufacturing.

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The constant refrain of free traders is that the lower prices brought about by foreign competition are good for consumers. But Batra points out that this view ignores the fact that the majority of consumers are also wage earners, and the disastrous drop in their income far exceeds the modest fall in inflation. The trouble with *foreign* competition is that most of its benefits flow to foreign workers, multinational corporations, and their top executives. What Batra proposes is to replace foreign competition with *domestic* competition by raising import tariffs to 40 percent, while breaking up domestic firms which control more than 10 percent of market share in any industry. (Even Adam Smith, the patron saint of the free trade school, said monopolies are the greatest enemies of consumers.)

This, Batra says, will reverse the deindustrialization of America, stimulate new business formation and job creation, spur continued gains in productivity, and restore the positive link between wages and productivity while keeping prices down.

Batra concedes that this will not be popular with America's trading partners, nearly all of whom have befitted from our self-destructive romance with free trade. But, unlike the trade war launched by the Hawley-Smoot Tariff Act in 1930, when the U.S. was running a healthy trade surplus, a trade war today would only benefit the U.S. Most of the losses would occur in the low-wage, low-productivity service sector and the unprofitable agricultural sector. But the gains would be primarily in manufacturing — the main engine of a nation's prosperity — and our $100 billion trade deficit would vanish.

Batra cites history in claiming that industry, not trade, is the well-spring of prosperity. Contrary to the promises of politicians and economist-lobbyists that more trade means more jobs and higher wages, real wages tumbled in the 1980s while U.S. exports more than doubled and productivity rose 13 percent. Contrast this with the period from 1869 to 1900 when U.S. tariffs averaged 45 percent: GNP and industrial production quadrupled, retail prices fell 37 percent, annual per capita income more than doubled, and real wages rose 50 percent even while the population soared.

International trade now accounts for 25 percent of America's GDP, an all-time high. Yet the promise of free trade has been consistently broken. Why does the U.S. persist in a policy so obviously failed? Batra steadfastly resists the temptation to go on a witch hunt, preferring instead to blame both the absence of a correct theory to replace the anachronism of free trade, and a general misunderstanding of Hawley-Smoot. He does, however, recognize the fact that free trade has been an unmitigated boon to the 5 percent of the population who derive meaningful income from capital, and that they are its loudest cheerleaders.

And what of NAFTA? Batra feels that the proposed free trade agreement "could be the straw that breaks America's back."

History is full of heretics who in retrospect were in fact visionaries. Perhaps, uncomfortable as some may find it today, Batra has something to teach us.■

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Associate Editor Wayne Lutton reviews three new books dealing with the North American Free Trade Agreement.

A Skeptic's Guide to NAFTA

Book Reviews by Wayne Lutton

SAVE YOUR JOB, SAVE OUR COUNTRY:
WHY NAFTA MUST BE STOPPED — NOW!
by Ross Perot with Pat Choate
New York: Hyperion
142 pp., $6.95

FACTS AND FICTIONS ABOUT "FREE TRADE": A READER FOR JOURNALISTS
Don Hazen, editor
Institute for Alternative Journalism
100 East 85th Street, New York, NY 10028
ph.(212) 799-4822; fax: (212) 580-0209
157 pp., $15.00

THE TRADING GAME: INSIDE LOBBYING FOR THE NORTH AMERICAN FREE TRADE AGREEMENT
Charles Lewis, Bill Hogan, et al
The Center for Public Integrity
1910 K St., Suite 802, Washington, DC 20006
ph. (202) 223-0299; fax: (202) 223-6287
108 pp., $15.00

Had Ross Perot decided not to use his resources to help make it a national issue, it seems likely that the North American Free Trade Agreement would have been quickly ratified with little public discussion. As we go to press, the outcome of the ratification battle is very much in doubt. The three volumes considered here provide plenty of reasons to view the agreement, and the accompanying lobbying campaign in support of it, with great skepticism.

Save Your Job, Save Your Country is a readers' guide to the two-volume, 1,100-page tri-lateral treaty. In addition to outlining the provisions of the agreement, the authors discuss the dubious politics behind NAFTA. While Bill Clinton pledged to "reinvent government," there can be little question but that NAFTA is "the ultimate insider deal."

According to Perot and Choate, the current agreement originated not with Mexican, Canadian, or United States interests, but rather with Japanese and European investors who sought guaranteed access to the huge American market, along with increased security for investors in Mexican-based enterprises. Until recent years, Mexico discouraged foreign investment and, like a number of other Latin American countries, has had the unpleasant habit of nationalizing potentially profitable companies. Despite successful efforts to attract outside investment, exemplified by the *maquiladora* program, Mexico remains a poor country with a large and growing population. Its domestic market is simply too small to make it attractive to the sort of large-scale foreign investment the Mexican government has been hoping to encourage.

In June 1990, Mexican President Salinas met with President Bush and urged that the United States, Mexico, and Canada join in a trade and investment-protection agreement. After Bush received congressional "fast track" authority to negotiate in complete secrecy and without congressional participation [representing a questionable "stretching" of Article I, Section 8 of the U.S. Constitution, wherein Congress is granted authority to regulate foreign commerce], the agreement was finally put together and signed by Salinas, Bush, and then-Canadian Prime Minister Mulroney. It awaits final approval by the national legislatures of the United States and Canada.

Upon reading the actual agreement, rather than merely the 44-page official press release, it is clear that NAFTA is concerned less with actual trade than it is about protecting investors and companies operating in Mexico. Even without NAFTA, many U.S. firms will continue to "disinvest" in America by shipping manufacturing jobs to Mexico. But Asian and European interests remain wary of Mexico's investment climate. As the author's emphasize, NAFTA's "principal goal is to assure foreign investors that their capital investments and plans will be safeguarded. ... NAFTA makes Mexico investor friendly — a place where U.S. [and other foreign] companies can operate under lax government

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